

VILLISCA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Villisca Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Janice Herzberg	President	2006
John A. Baker	Vice President	2007
Kerin Wright	Board Member	2006
Jason Poston	Board Member	2008
Blaine Sunderman	Board Member	2008
Board of Education		
(After September 2006 Election)		
John A. Baker	President	2007
Marvin Smith	Vice President	2009
Daniel Sorensen	Board Member	2009
Jason Poston	Board Member	2008
Blaine Sunderman	Board Member	2008
School Officials		
Teresa Nook	Superintendent	2007
Shirley Maxwell	District Secretary and Treasurer (Resigned)	2007
Jessie Forsythe	District Secretary and Treasurer (Appointed)	2007
Jeff Millholin and Drew Bracken	Attorney	2007

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Villisca Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Villisca Community School District, Villisca, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Villisca Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2008 on our consideration of the Villisca Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Villisca Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

January 8, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Villisca Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,379,259 in fiscal 2006 to \$3,524,162 in fiscal 2007, while General Fund expenditures increased from \$3,418,677 in fiscal 2006 to \$3,528,408 in fiscal 2007. Although revenues increased in fiscal 2006, the increase wasn't enough to offset the increased fiscal 2007 expenditures. The result is a decrease in the District's General Fund balance from of \$408,519 in fiscal 2006 to a balance of \$404,273 in fiscal 2007, a decrease of 1.04% from the prior year.
- Board approval of \$110,000 of Local Option Sales and Service Tax income toward payment of outstanding General Obligation Bond indebtedness helps reduce the property tax rate for patrons.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Villisca Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Villisca Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Villisca Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Villisca Community School District Annual Financial Report

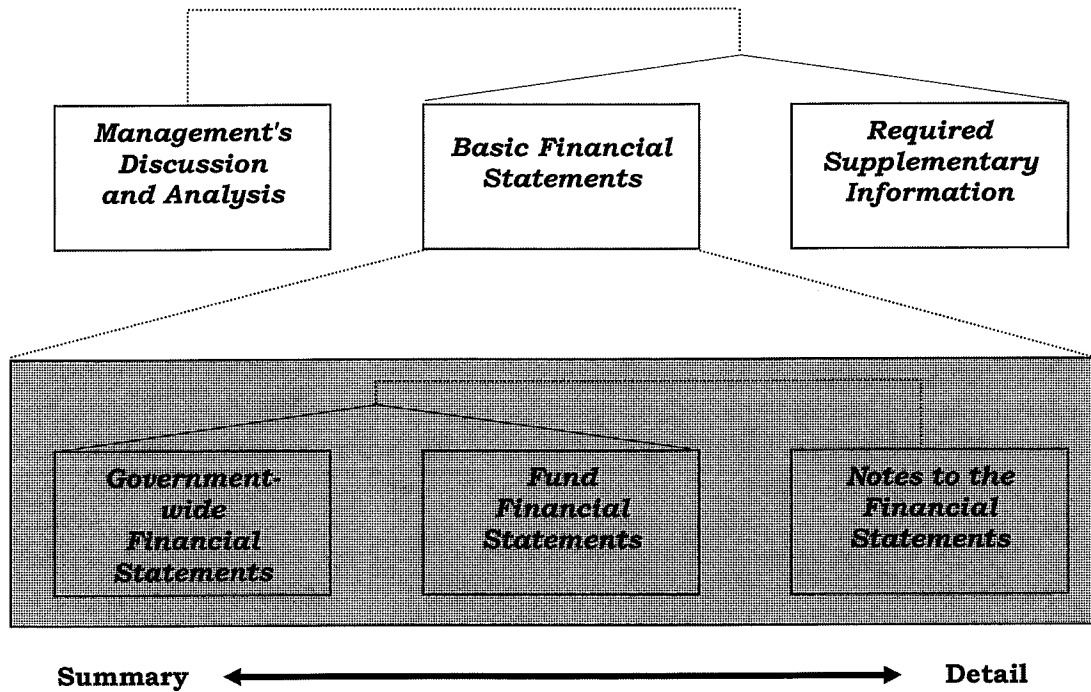


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 5,817,338	5,748,540	20,508	15,769	5,837,846	5,764,309	1.28%
Capital assets	3,780,243	3,756,917	24,196	26,920	3,804,439	3,783,837	0.54%
Total assets	9,597,581	9,505,457	44,704	48,875	9,642,285	9,548,146	0.99%
Long-term obligations	4,870,000	5,005,000	0	0	4,870,000	5,005,000	-2.70%
Other liabilities	1,802,772	1,786,448	1,433	1,368	1,804,205	1,787,816	0.92%
Total liabilities	6,672,772	6,791,448	1,433	1,368	6,674,205	6,792,816	-1.75%
Net assets:							
Invested in capital assets, net of related debt	1,092,700	934,000	24,196	26,920	1,116,896	960,920	16.23%
Restricted	1,436,305	1,343,593	0	0	1,436,305	1,343,593	6.90%
Unrestricted	395,804	436,416	19,075	14,401	414,879	450,817	-7.97%
Total net assets	\$ 2,924,809	2,714,009	43,271	41,321	2,968,080	2,755,330	7.72%

The District's combined net assets increased by 7.72%, or approximately \$212,750, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$92,712 or 6.90% over to the prior year. The increase was primarily a result of controlled spending in the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$35,938, or 7.97%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 compared to June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 263,934	285,256	98,304	97,802	362,238	383,058	-5.44%
Operating grants and contributions and restricted interest	532,544	511,717	90,075	75,754	622,619	587,471	5.98%
General revenues:							
Property tax	1,477,932	1,397,974	0	0	1,477,932	1,397,974	5.72%
Local option sales and service tax	242,524	220,329	0	0	242,524	220,329	10.07%
Unrestricted state grants	1,666,071	1,625,822	0	0	1,666,071	1,625,822	2.48%
Other	194,238	118,685	65	49	194,303	118,734	63.65%
Total revenues	4,377,243	4,159,783	188,444	173,605	4,565,687	4,333,388	5.36%
Program expenses:							
Governmental activities:							
Instructional	2,533,307	2,465,935	0	0	2,533,307	2,465,935	2.73%
Support services	1,155,894	1,189,946	0	0	1,155,894	1,189,946	-2.86%
Non-instructional programs	277	277	186,494	179,385	186,771	179,662	3.96%
Other expenses	476,965	450,730	0	0	476,965	450,730	5.82%
Total expenses	4,166,443	4,106,888	186,494	179,385	4,352,937	4,286,273	1.56%
Changes in net assets	210,800	52,895	1,950	(5,780)	212,750	47,115	351.55%
Net assets beginning of year	2,714,009	2,661,114	41,321	47,101	2,755,330	2,708,215	1.74%
Net assets end of year	\$ 2,924,809	2,714,009	43,271	41,321	2,968,080	2,755,330	7.72%

In fiscal 2007, property tax and unrestricted state grants account for 71.83% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.97% of the revenue from business type activities.

The District's total revenues were approximately \$4.57 million of which \$4.38 million was for governmental activities and \$.19 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 5.36% increase in revenues and a 1.56% increase in expenses. The increase in expenses was a result of the increases in the negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$4,377,243 and expenses were \$4,166,443. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 2,533,307	2,465,935	2.73%	1,872,832	1,796,691	4.24%
Support services	1,155,894	1,189,946	-2.86%	1,155,189	1,189,434	-2.88%
Non-instructional	277	277	0.00%	277	277	0.00%
Other expenses	476,965	450,730	5.82%	341,667	323,513	5.61%
Totals	<u>\$ 4,166,443</u>	<u>4,106,888</u>	<u>1.45%</u>	<u>3,369,965</u>	<u>3,309,915</u>	<u>1.81%</u>

- The cost financed by users of the District's programs was \$263,934.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$532,544.
- The net cost of governmental activities was financed with \$1,477,932 in property tax, \$242,524 in local option sales and service tax, \$1,666,071 in unrestricted state grants and \$167,521 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$188,444 and expenses were \$186,494. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Villisca Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$4,005,512, above last year's ending fund balances of a \$3,961,538.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Reduction in tax levy during the year was offset by an increase in grant revenues allowing total revenues to increase for the year. Although the District saw an increase in total revenues, the increase was not enough to offset the increase in expenditures ensuring the financial position of the District's General Fund decrease.
- The Activity fund and Expendable Trust fund combined balance increased from \$228,975 in 2006, to \$234,610 in 2007, due to decreased expenditures in both funds as compared to 2006.
- The Management Fund balance increased from \$209,271 in 2006 to \$229,699 in 2007. The decrease in expenditures was more than the decrease in revenues for the fund, thus guaranteeing the increase in fund balance during the year.

-
- The Physical Plant and Equipment Levy Fund (PPEL) balance decreased from \$313,308 to \$270,824. Major purchases from this fund during the year were a bus for \$61,560. The remaining balance in this fund will be needed for repairs in the Enarson Building, acquiring new vehicles for the transportation department, and major technology purchases.
 - The District's Capital Projects Fund increased from \$578,843 in 2006, to \$638,973 in 2007, due to an increase in local option sales and services tax during the current year. Monies from this fund were used for a new boiler at the elementary building.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$41,321 at June 30, 2006 to \$43,271 at June 30, 2007, representing an increase of approximately 4.72%.

During fiscal year 2007, the District chose not to increase prices for meals for the School Nutrition Fund. Even though prices remained steady, the Nutrition Fund balance still increased during the year. This was attributable to the District receiving \$14,194 more in federal source income (commodities and reimbursable meals) as compared to fiscal year 2006. This increase was more than enough to offset the increase in expenditures for the fund during the year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$15,179 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$3.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.54% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$156,768.

The original cost of the District's capital assets was \$5,845,226. Governmental funds account for \$5,768,516 with the remainder of \$76,710 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than building category. This category totaled \$12,672 at June 30, 2006, compared to \$9,565 reported at June 30, 2007. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 18,650	18,650	0	0	18,650	18,650	0.00%
Buildings	3,554,271	3,544,414	0	0	3,554,271	3,544,414	0.28%
Improvements other than buildings	9,565	12,672	0	0	9,565	12,672	-24.52%
Machinery and equipment	197,757	181,181	24,196	26,920	221,953	208,101	6.66%
Total	<u>\$ 3,780,243</u>	<u>3,756,917</u>	<u>24,196</u>	<u>26,920</u>	<u>3,804,439</u>	<u>3,783,837</u>	<u>0.54%</u>

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$4,870,000 in general obligation bonds. This represents a decrease of approximately 2.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2007	2006	Change
General obligation bonds	<u>\$ 4,870,000</u>	<u>5,005,000</u>	<u>-2.7%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced declining enrollment for a few years, the District expects the enrollment to remain stable.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) was in the first year of a ten-year phase out.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jessie Forsythe, District Board Secretary/Business Manager, Villisca Community School District, 406 E 3rd St., Villisca, Iowa, 50864.

BASIC FINANCIAL STATEMENTS

VILLISCA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 1,997,423	16,523	2,013,946
U.S. Treasury Securities on deposit with escrow agent	2,182,457	0	2,182,457
Receivables:			
Property tax:			
Delinquent	29,854	0	29,854
Succeeding year	1,417,640	0	1,417,640
Income surtax	48,243	0	48,243
Accounts	295	0	295
Due from other governments	141,426	0	141,426
Inventories	0	3,985	3,985
Capital assets, net of accumulated depreciation (Note 4)	3,780,243	24,196	3,804,439
Total Assets	9,597,581	44,704	9,642,285
Liabilities			
Accounts payable	39,932	0	39,932
Salaries and benefits payable	306,011	0	306,011
Accrued interest payable	39,189	0	39,189
Deferred revenue:			
Succeeding year property tax	1,417,640	0	1,417,640
Unearned revenues	0	1,433	1,433
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	140,000	0	140,000
Portion due after one year:			
General obligation bonds	4,730,000	0	4,730,000
Total Liabilities	6,672,772	1,433	6,674,205
Net Assets			
Invested in capital assets, net of related debt	1,092,700	24,196	1,116,896
Restricted for:			
Talented and gifted	13,327	0	13,327
Market factor	3,078	0	3,078
Wellness	1,118	0	1,118
Management levy	229,699	0	229,699
Physical plant & equipment levy	270,824	0	270,824
Capital projects	638,973	0	638,973
Debt service	44,676	0	44,676
Other special revenue purposes	234,610	0	234,610
Unrestricted	395,804	19,075	414,879
Total Net Assets	\$ 2,924,809	43,271	2,968,080

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,432,106	99,536	373,255	(959,315)	0	(959,315)
Special instruction	533,797	0	23,286	(510,511)	0	(510,511)
Other instruction	567,404	164,398	0	(403,006)	0	(403,006)
	<u>2,533,307</u>	<u>263,934</u>	<u>396,541</u>	<u>(1,872,832)</u>	<u>0</u>	<u>(1,872,832)</u>
Support services:						
Student services	89,149	0	0	(89,149)	0	(89,149)
Instructional staff services	79,244	0	0	(79,244)	0	(79,244)
Administration services	445,301	0	0	(445,301)	0	(445,301)
Operation and maintenance of plant services	336,641	0	0	(336,641)	0	(336,641)
Transportation services	205,559	0	705	(204,854)	0	(204,854)
	<u>1,155,894</u>	<u>0</u>	<u>705</u>	<u>(1,155,189)</u>	<u>0</u>	<u>(1,155,189)</u>
Non-instructional services	<u>277</u>	<u>0</u>	<u>0</u>	<u>(277)</u>	<u>0</u>	<u>(277)</u>
Other expenditures:						
Facilities acquisitions	1,568	0	0	(1,568)	0	(1,568)
Long-term debt interest	242,285	0	0	(242,285)	0	(242,285)
AEA flowthrough	135,298	0	135,298	0	0	0
Depreciation(unallocated) *	97,814	0	0	(97,814)	0	(97,814)
	<u>476,965</u>	<u>0</u>	<u>135,298</u>	<u>(341,667)</u>	<u>0</u>	<u>(341,667)</u>
Total governmental activities	<u>4,166,443</u>	<u>263,934</u>	<u>532,544</u>	<u>(3,369,965)</u>	<u>0</u>	<u>(3,369,965)</u>
Business-Type activities:						
Non-instructional programs:						
Nutrition services	186,494	98,304	90,075	0	1,885	1,885
Total business-type activities	<u>186,494</u>	<u>98,304</u>	<u>90,075</u>	<u>0</u>	<u>1,885</u>	<u>1,885</u>
Total	<u>\$ 4,352,937</u>	<u>362,238</u>	<u>622,619</u>	<u>(3,369,965)</u>	<u>1,885</u>	<u>(3,368,080)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,265,109	0	1,265,109
Debt services				124,170	0	124,170
Capital outlay				88,653	0	88,653
Local option sales and service tax				242,524	0	242,524
Unrestricted state grants				1,666,071	0	1,666,071
Unrestricted investment earnings				167,521	65	167,586
Other				26,717	0	26,717
Total general revenues				<u>3,580,765</u>	<u>65</u>	<u>3,580,830</u>
Changes in net assets				210,800	1,950	212,750
Net assets beginning of year				<u>2,714,009</u>	<u>41,321</u>	<u>2,755,330</u>
Net assets end of year				<u>\$ 2,924,809</u>	<u>43,271</u>	<u>2,968,080</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
Assets					
Cash and pooled investments	\$ 644,183	577,747	42,064	733,429	1,997,423
U.S. Treasury Securities on deposit with escrow agent	0	0	2,182,457	0	2,182,457
Receivables:					
Property tax					
Delinquent	24,951	0	2,612	2,291	29,854
Succeeding year	1,130,023	0	178,250	109,367	1,417,640
Income surtax	0	0	0	48,243	48,243
Accounts	0	0	0	295	295
Due from other governments	80,200	61,226	0	0	141,426
Total Assets	\$ 1,879,357	638,973	2,405,383	893,625	5,817,338
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 39,050	0	0	882	39,932
Salaries and benefits payable	306,011	0	0	0	306,011
Deferred revenue:					
Succeeding year property tax	1,130,023	0	178,250	109,367	1,417,640
Income surtax	0	0	0	48,243	48,243
Total liabilities	1,475,084	0	178,250	158,492	1,811,826
Fund balances:					
Reserved for:					
Debt service	0	0	2,227,133	0	2,227,133
Talented and gifted	13,327	0	0	0	13,327
Market factor	3,078	0	0	0	3,078
Wellness	1,118	0	0	0	1,118
Unreserved:					
Designated for cash flow	220,000	0	0	0	220,000
Undesignated	166,750	638,973	0	735,133	1,540,856
Total fund balances	404,273	638,973	2,227,133	735,133	4,005,512
Total Liabilities and Fund Balances	\$ 1,879,357	638,973	2,405,383	893,625	5,817,338

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15) \$ 4,005,512

***Amounts reported for governmental activities in the
 statement of net assets are different because:***

Capital assets used in governmental activities are not
 financial resources and, therefore, are not report as
 assets in in the governmental funds. 3,780,243

Accrued interest payable in long-term liabilities is not
 due and payable in the current period and, therefore,
 is not reported as a liability in the governmental funds. (39,189)

Accounts receivable income surtax, are not yet available
 to finance expenditures of the current fiscal period. 48,243

Long-term liabilities, including bonds payable, are not
 due and payable in the current period and, therefore,
 are not reported as liabilities in the governmental funds. (4,870,000)

Net assets of governmental activites (page 13) \$ 2,924,809

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,186,021	242,524	124,170	160,591	1,713,306
Tuition	78,454	0	0	0	78,454
Other	61,243	20,644	88,770	209,061	379,718
State sources	2,030,230	0	0	80	2,030,310
Federal sources	168,214	0	91	0	168,305
Total revenues	3,524,162	263,168	213,031	369,732	4,370,093
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,415,431	0	0	12,893	1,428,324
Special instruction	533,797	0	0	0	533,797
Other instruction	405,052	0	0	164,880	569,932
	2,354,280	0	0	177,773	2,532,053
Support services:					
Student services	88,872	0	0	277	89,149
Instructional staff services	61,140	0	0	14,104	75,244
Administration services	438,311	0	0	6,990	445,301
Operation and maintenance of plant services	297,861	0	0	35,203	333,064
Transportation services	152,646	0	0	78,320	230,966
	1,038,830	0	0	134,894	1,173,724
Non-instructional	0	0	0	277	277
Other expenditures:					
Facilities acquisitions	0	93,038	0	13,094	106,132
Long-term debt:					
Principal	0	0	135,000	0	135,000
Interest and fiscal charges	0	0	243,635	0	243,635
AEA flowthrough	135,298	0	0	0	135,298
	135,298	93,038	378,635	13,094	620,065
Total expenditures	3,528,408	93,038	378,635	326,038	4,326,119
Excess(deficiency) of revenues over(under) expenditures	(4,246)	170,130	(165,604)	43,694	43,974
Other financing sources(uses):					
Transfers in	0	0	170,115	0	170,115
Transfers out	0	(110,000)	0	(60,115)	(170,115)
Total other financing sources(uses)	0	(110,000)	170,115	(60,115)	0
Net change in fund balances	(4,246)	60,130	4,511	(16,421)	43,974
Fund balances beginning of year	408,519	578,843	2,222,622	751,554	3,961,538
Fund balances end of year	\$ 404,273	638,973	2,227,133	735,133	4,005,512

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds(page 17) \$ 43,974

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 176,077	
Depreciation expense	(152,751)	23,326

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 7,150

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Repaid		135,000
--------	--	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

	1,350
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Changes in net assets of governmental activities(page 14) \$ 210,800

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 16,523
Inventories	3,985
Capital assets, net of accumulated depreciation	<u>24,196</u>
Total Assets	<u>44,704</u>
Liabilities	
Unearned revenues	<u>1,433</u>
Net Assets	
Invested in capital assets	24,196
Unrestricted	<u>19,075</u>
Total Net Assets	<u><u>\$ 43,271</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 98,304
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	62,893
Benefits	8,554
Services	1,970
Supplies	108,785
Depreciation	4,017
TOTAL OPERATING EXPENSES	<u>186,219</u>
OPERATING LOSS	<u>(87,915)</u>
NON-OPERATING REVENUES:	
Interest	65
State sources	2,139
Federal sources	87,936
TOTAL NON-OPERATING REVENUES	<u>90,140</u>
Change in net assets before other financing uses	2,225
Loss on asset disposal	<u>(275)</u>
Change in net assets	1,950
Net assets beginning of year	<u>41,321</u>
Net assets end of year	<u><u>\$ 43,271</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

VILLISCA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 87,060
Cash received from miscellaneous operating activities	11,368
Cash payments to employees for services	(71,447)
Cash payments to suppliers for goods or services	(103,258)
Net cash used in operating activities	<u>(76,277)</u>
Cash flows from non-capital financing activities:	
State grants received	2,139
Federal grants received	80,400
Net cash provided by non-capital financing activities	<u>82,539</u>
Cash flows from investing activities:	
Interest on investments	<u>65</u>
Cash flows from capital financing activities:	
Purchase of assets	<u>(1,568)</u>
Net increase in cash and cash equivalents	4,759
Cash and cash equivalents at beginning of year	<u>11,764</u>
Cash and cash equivalents at end of year	<u>\$ 16,523</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (87,915)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Commodities consumed	7,536
Depreciation	4,017
Increase in inventories	(39)
Decrease in accounts receivable	59
Increase in unearned revenue	65
Net cash used in operating activities	<u>\$ (76,277)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 16,523</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$7,536.

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Villisca Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Villisca, Iowa, and the predominate agricultural territory in Adams, Montgomery, Page and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Villisca Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Villisca Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Montgomery, Page and Taylor County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction or improvement of those assets. The value of the United States Treasury Securities on deposit with the escrow agent as part of the crossover refunding bond issue has been added to the invested in capital assets, net of related debt.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries and benefits payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Designated Cashflow - In the governmental fund financial statements, the District's board designated \$220,000 of the General Fund's unreserved balance for cashflow purposes.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 664,283</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities and Certificates of deposit are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2007, the District had investments in U.S. Treasury Securities and Certificates of Deposit maturing in over one year as follows:

	<u>Fair Value</u>
U.S. Treasury Securities	\$ 2,182,457
Certificate of Deposit	36,800
Total	<u>\$ 2,219,257</u>

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 110,000
	Special Revenue:	
	Physical Plant and	
Debt Service	Equipment Levy	<u>60,115</u>
Total		<u>\$ 170,115</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,650	0	0	18,650
Total capital assets not being depreciated	<u>18,650</u>	<u>0</u>	<u>0</u>	<u>18,650</u>
Capital assets being depreciated:				
Buildings	4,632,738	104,564	0	4,737,302
Land improvements	109,264	0	0	109,264
Machinery and equipment	831,787	71,513	0	903,300
Total capital assets being depreciated	<u>5,573,789</u>	<u>176,077</u>	<u>0</u>	<u>5,749,866</u>
Less accumulated depreciation for:				
Buildings	1,088,324	94,707	0	1,183,031
Land improvements	96,592	3,107	0	99,699
Machinery and equipment	650,606	54,937	0	705,543
Total accumulated depreciation	<u>1,835,522</u>	<u>152,751</u>	<u>0</u>	<u>1,988,273</u>
Total capital assets being depreciated, net	<u>3,738,267</u>	<u>23,326</u>	<u>0</u>	<u>3,761,593</u>
Governmental activities capital assets, net	<u>\$ 3,756,917</u>	<u>23,326</u>	<u>0</u>	<u>3,780,243</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 81,319	1,568	6,177	76,710
Less accumulated depreciation	54,399	4,017	5,902	52,514
Business-type activities capital assets, net	<u>\$ 26,920</u>	<u>(2,449)</u>	<u>275</u>	<u>24,196</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 6,441
Other	4,766
Support services:	
Instructional staff services	4,000
Operation and maintenance of plant services	3,577
Transportation	<u>36,153</u>
	<u>54,937</u>
Unallocated depreciation	<u>97,814</u>
Total governmental activities depreciation expense	<u>\$ 152,751</u>
Business-type activities:	
Food services	<u>\$ 4,017</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 5,005,000	0	135,000	4,870,000	140,000

General Obligation

On December 1, 2005, the District issued \$2,235,000 of general obligation refunding bonds, with interest rates ranging from 3.75% to 4.00%, for a crossover refunding of a portion of the general obligation bonds issued May 1, 2000. The District entered in to an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$2,180,000 principal on the refunded general obligation bonds when they become callable on May 1, 2011 and on the interest from December 1, 2005 to May 1, 2011 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished. Annual debt service requirements to maturity of the general obligation refunding bonds are as follows:

Year Ending June 30,	Interest Rate	Bond issue dated May 1, 2000		
		Principal	Interest	Total
2008	6.00	% \$ 140,000	147,850	287,850
2009	6.00	155,000	139,450	294,450
2010	5.85	160,000	130,150	290,150
2011	5.25	170,000	120,790	290,790
2012-2016	5.30-5.60	995,000	458,323	1,453,323
2017-2020	5.65-5.75	1,015,000	149,540	1,164,540
Subtotal		\$ 2,635,000	1,146,103	3,781,103

Year Ending June 30,	Interest Rate	Bond issue dated December 1, 2005		
		Principal	Interest	Total
2008	-	% \$ 0	87,285	87,285
2009	-	0	87,285	87,285
2010	-	0	87,285	87,285
2011	4.00	185,000	87,285	272,285
2012-2016	3.75-4.00	1,050,000	320,225	1,370,225
2017-2020	3.85-4.00	1,000,000	101,765	1,101,765
Subtotal		\$ 2,235,000	771,130	3,006,130
Total		\$ 4,870,000	1,542,260	6,012,260

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$122,412, \$118,768, and \$112,207, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$11,211.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

Villisca Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$135,298 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

VILLISCA COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,171,478	98,369	2,269,847	2,094,146	2,094,146	175,701
State sources	2,030,310	2,139	2,032,449	2,149,212	2,149,212	(116,763)
Federal sources	168,305	87,936	256,241	300,000	300,000	(43,759)
Total revenues	4,370,093	188,444	4,558,537	4,543,358	4,543,358	15,179
Expenditures:						
Instruction	2,532,053	0	2,532,053	2,980,157	2,980,157	448,104
Support services	1,173,724	0	1,173,724	1,491,650	1,491,650	317,926
Non-instructional programs	277	186,219	186,496	263,643	263,643	77,147
Other expenditures	620,065	0	620,065	1,299,777	1,299,777	679,712
Total expenditures	4,326,119	186,219	4,512,338	6,035,227	6,035,227	1,522,889
Excess(deficiency) of revenues over(under) expenditures	43,974	2,225	46,199	(1,491,869)	(1,491,869)	1,538,068
Other financing sources, net	0	(275)	(275)	0	0	(275)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	43,974	1,950	45,924	(1,491,869)	(1,491,869)	1,537,793
Balance beginning of year	3,961,538	41,321	4,002,859	1,541,869	1,541,869	2,460,990
Balance end of year	\$ 4,005,512	43,271	4,048,783	50,000	50,000	3,998,783

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTAL INFORMATION

VILLISCA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2007

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
Assets					
Cash and pooled investments	\$ 228,185	61,233	270,047	173,964	733,429
Receivables:					
Property tax:					
Current year delinquent	1,514	0	777	0	2,291
Succeeding year	72,000	0	37,367	0	109,367
Income surtax	0	0	48,243	0	48,243
Accounts	0	295	0	0	295
Total Assets	\$ 301,699	61,528	356,434	173,964	893,625
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 0	882	0	0	882
Deferred revenue:					
Succeeding year property tax	72,000	0	37,367	0	109,367
Income surtax	0	0	48,243	0	48,243
Total liabilities	72,000	882	85,610	0	158,492
Fund Balances:					
Unreserved fund balances	229,699	60,646	270,824	173,964	735,133
Total Liabilities and Fund Balances	\$ 301,699	61,528	356,434	173,964	893,625

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
REVENUES:					
Local sources:					
Local tax	\$ 71,938	0	88,653	0	160,591
Other	15,145	167,187	17,501	9,228	209,061
State sources	53	0	27	0	80
TOTAL REVENUES	87,136	167,187	106,181	9,228	369,732
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	6,993	0	0	5,900	12,893
Other instruction	0	164,880	0	0	164,880
	6,993	164,880	0	5,900	177,773
Support services:					
Student support services	277	0	0	0	277
Instructional staff services	208	0	13,896	0	14,104
Administration services	6,990	0	0	0	6,990
Operation and maintenance of plant services	35,203	0	0	0	35,203
Transportation services	16,760	0	61,560	0	78,320
	59,438	0	75,456	0	134,894
Non-instructional	277	0	0	0	277
Other expenditures:					
Facility acquisition	0	0	13,094	0	13,094
TOTAL EXPENDITURES	66,708	164,880	88,550	5,900	326,038
Excess of revenues over expenditures	20,428	2,307	17,631	3,328	43,694
Other financing uses:					
Transfers out	0	0	(60,115)	0	(60,115)
Excess(deficiency) of revenues over(under) expenditures and other financing uses	20,428	2,307	(42,484)	3,328	(16,421)
Fund balances beginning of year	209,271	58,339	313,308	170,636	751,554
Fund balances end of year	\$ 229,699	60,646	270,824	173,964	735,133

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	4,669	2,789	3,510	3,948
Student activity pop	4,779	13,563	14,687	3,655
Activity tickets	406	1,766	1,151	1,021
Secondary student club	8,681	134	2,901	5,914
Elementary club K-6	10,302	12,083	12,626	9,759
National honor society	9	778	787	0
Annual staff	1,183	5,190	5,139	1,234
Drama club	272	2,927	2,603	596
Music boosters	1,181	6,064	5,414	1,831
Dance team	4,397	4,304	3,694	5,007
Athletics	3	8,104	8,107	0
Track	3	1,709	1,762	(50)
Golf	22	383	405	0
Basketball	9,197	11,330	10,262	10,265
Football	(995)	7,662	6,667	0
Softball/baseball	(40)	5,899	5,999	(140)
Volleyball	2,686	4,115	3,685	3,116
Y-teens	3,739	13,418	13,084	4,073
FFA	1,566	31,544	29,451	3,659
Science club	1,281	11,623	11,760	1,144
Cheerleaders	439	2,754	2,105	1,088
Librarians	158	1,802	1,960	0
Student council	1,401	2,718	2,963	1,156
JH boosters	151	20	32	139
Destination Image	586	60	646	0
National Destination Image	0	586	60	526
T.O.U.C.H	383	0	0	383
Class of 2007	1,023	2,104	2,266	861
Class of 2008	541	10,128	9,581	1,088
Class of 2009	236	574	664	146
Class of 2010	75	415	260	230
Class of 2011	26	298	292	32
Class of 2012	(21)	236	221	(6)
Class of 2013	0	107	136	(29)
Total	\$ 58,339	167,187	164,880	60,646

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	1,713,306	1,618,303	1,610,022	1,492,769
Tuition		78,454	58,162	45,031	97,588
Other		379,718	339,455	212,189	226,065
State sources		2,030,310	1,936,781	1,734,318	1,719,088
Federal sources		168,305	200,758	232,005	175,949
Total	\$	4,370,093	4,153,459	3,833,565	3,711,459
Expenditures:					
Instruction:					
Regular instruction	\$	1,428,324	1,594,716	1,380,388	1,235,610
Special instruction		533,797	438,880	459,736	569,350
Other instruction		569,932	426,302	437,493	371,371
Support services:					
Student services		89,149	107,231	76,683	78,347
Instructional staff services		75,244	51,932	43,227	50,223
Administration services		445,301	509,316	444,100	434,571
Operation and maintenance of plant services		333,064	317,474	261,083	265,591
Transportation services		230,966	222,208	197,724	198,894
Central services		0	0	0	4,286
Non-instructional:					
Food service		277	277	254	233
Community service & education operations		0	0	31,943	29,319
Other expenditures:					
Facilities acquisitions		106,132	93,679	104,824	51,122
Long Term Debt:					
Principal		135,000	130,000	120,000	115,000
Interest		243,635	200,120	171,350	178,150
AEA flow-through		135,298	127,217	120,890	124,144
Total	\$	4,326,119	4,219,352	3,849,695	3,706,211

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Villisca Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Villisca Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Villisca Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Villisca Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Villisca Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Villisca Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Villisca Community School District's financial statements that is more than inconsequential will not be prevented or detected by Villisca Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Villisca Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Villisca Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Villisca Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Villisca Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Villisca Community School District and other parties to whom Villisca Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Villisca Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 8, 2008

VILLISCA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-07 Student Activity Fund - During our audit we noted that Target and Box Top donations were being receipted into the Activity Fund.

Recommendation - Donations made to a District should be placed in the most appropriate place based upon the donor request. Target and Box Tops donates to schools for instructional materials and supplies. The most logical place to record the revenue and subsequent purchase would be the General Fund. The District should record future donations from Target and Box Tops in the General Fund.

Response - We have already implemented changes to make sure Target and Box Top donations are placed in the General Fund.

Conclusion - Response accepted.

I-C-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - We have submitted outstanding checks to the State Treasurer and will continue to do so annually.

Conclusion - Response accepted.

I-D-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - Beginning with the 2007 fiscal year, the District has implemented the expectation that the athletic director will keep track of hours worked for non-certified staff coaches.

Conclusion - Response accepted.

VILLISCA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed amounts budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dick Wright, substitute bus driver Owner of Wrights Parts & Service	Repairs, supplies	\$649
Lisa Kernen, Teacher Spouse owns Granny's Auto Parts	Repairs	\$717

In accordance with Attorney's General Opinion dated July 2, 1990, the above transactions with Mr. Wright do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Mrs. Kernen do not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were tuitioned out was overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - On November 27, 2007, the District contacted both the Department of Education and the Department of Management concerning the variance in tuitioned out students. Funding adjustments will occur on the 2009 Aid and Levy worksheet.

Conclusion - Response accepted.

II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Financial Condition - We noted during our audit that the Special Revenue, Student Activity Fund has four deficit accounts totaling \$225.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - We will investigate available alternatives to eliminate negative accounts in the Activity Fund and will make sure all accounts have a positive balance at year end.

Conclusion - Response accepted.